

**Village of Westphalia  
Clinton County, Michigan**

**FINANCIAL STATEMENTS**

**February 29, 2004**

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Village of Westphalia</b>	County <b>Clinton</b>
Audit Date <b>2/29/04</b>	Opinion Date <b>6/2/04</b>	Date Accountant Report Submitted to State: <b>8/31/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Abraham &amp; Gaffney, P.C.</b>			
Street Address <b>108 N. Spring Street</b>		City <b>St. Johns</b>	State <b>MI</b>
		ZIP <b>48879</b>	
Accountant Signature <i>Abraham &amp; Gaffney, P.C. Aaron M. Stene, CPA</i>			Date <b>8/26/04</b>

Village of Westphalia  
Clinton County, Michigan

February 29, 2004

VILLAGE COUNCIL AND ADMINISTRATION

Mr. Charles Schafer

President

Mr. Mark Schafer

Mayor Pro-Tem

Mr. Dave Boswell

Trustee

Mr. Stan Bauer

Trustee

Mr. Dean Kohagen

Trustee

Mr. Phil Hanses

Trustee

Mr. Nort Upson

Trustee

Ms. Sandy Smith

Clerk

Ms. Wendy Thelen

Treasurer

Village of Westphalia  
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Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA

Karen A. Roka, CPA  
James A. Huguelet, CPA  
Alan D. Panter, CPA  
William I. Tucker IV, CPA  
Kurt M. Lemmen, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

Member:  
American Institute of Certified  
Public Accountants  
and  
Michigan Association of  
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT**

To the Honorable President and  
Members of the Village Council  
Village of Westphalia  
Westphalia, Michigan

We have audited the accompanying general purpose financial statements of the Village of Westphalia, Michigan as of and for the year ended February 29, 2004, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of Westphalia, Michigan as of February 29, 2004, and the results of its operations and cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements listed in the Table of Contents under Supplemental Financial Information are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Village of Westphalia, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

June 2, 2004

**GENERAL PURPOSE FINANCIAL STATEMENTS**

Village of Westphalia

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP

February 29, 2004

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>	<u>Account Group</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>General Fixed Assets</u>	
ASSETS					
Cash and cash equivalents	\$ 121,584	\$ 184,270	\$ 257,258	\$ -	\$ 563,112
Cash and cash equivalents - restricted	-	-	28,628	-	28,628
Investments	30,000	94,747	255,000	-	379,747
Accounts receivable	3,257	9,641	23,135	-	36,033
Due from other funds	7,492	-	18,670	-	26,162
Due from other governmental units	12,310	11,917	-	-	24,227
Fixed assets (net of accumulated depreciation)	-	-	581,601	467,548	1,049,149
 TOTAL ASSETS	 <u>\$ 174,643</u>	 <u>\$ 300,575</u>	 <u>\$ 1,164,292</u>	 <u>\$ 467,548</u>	 <u>\$ 2,107,058</u>

See accompanying notes to general purpose financial statements.

Village of Westphalia

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP - CONTINUED

February 29, 2004

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>	<u>Account Group</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>General Fixed Assets</u>	<u>Totals (Memorandum Only)</u>
LIABILITIES					
Payables					
Accounts	\$ 4,251	\$ 1,863	\$ 660	\$ -	\$ 6,774
Other accrued liabilities	4,688	-	-	-	4,688
Accrued interest	-	-	646	-	646
Payable from restricted cash - customer deposits	-	-	120	-	120
Due to other funds	7,207	3,650	15,305	-	26,162
Bonds and notes payable	-	-	38,000	-	38,000
TOTAL LIABILITIES	16,146	5,513	54,731	-0-	76,390
FUND EQUITY					
Contributed capital					
Federal	-	-	216,234	-	216,234
Investment in general fixed assets	-	-	-	467,548	467,548
Retained earnings					
Reserved for debt service	-	-	3,800	-	3,800
Unreserved	-	-	889,527	-	889,527
Fund balance					
Unreserved					
Designated for future capital projects	125,534	-	-	-	125,534
Undesignated	32,963	295,062	-	-	328,025
TOTAL FUND EQUITY	158,497	295,062	1,109,561	467,548	2,030,668
TOTAL LIABILITIES AND FUND EQUITY	<u>\$174,643</u>	<u>\$ 300,575</u>	<u>\$ 1,164,292</u>	<u>\$467,548</u>	<u>\$ 2,107,058</u>



Village of Westphalia

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
ALL GOVERNMENTAL FUND TYPES

Year Ended February 29, 2004

	General	Special Revenue	Totals (Memorandum Only)
REVENUES			
Taxes	\$ 154,667	\$ -	\$ 154,667
Licenses and permits	1,400	-	1,400
Intergovernmental	76,495	66,541	143,036
Charges for services	62,475	10,318	72,793
Interest and rents	2,254	7,056	9,310
Other	2,157	2,226	4,383
TOTAL REVENUES	299,448	86,141	385,589
EXPENDITURES			
General government	210,340	9,235	219,575
Public safety	11,439	-	11,439
Public works	177	31,928	32,105
Health and welfare	6,936	-	6,936
Community and economic development	4,731	-	4,731
Recreation and cultural	-	16,263	16,263
Other	7,349	-	7,349
Capital outlay	89,440	-	89,440
Debt service	26,440	-	26,440
TOTAL EXPENDITURES	356,852	57,426	414,278
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(57,404)	28,715	(28,689)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	16,500	16,500
Operating transfers out	(16,500)	-	(16,500)
TOTAL OTHER FINANCING SOURCES (USES)	(16,500)	16,500	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND FINANCING OTHER (USES)	(73,904)	45,215	(28,689)
Fund balances, beginning of year	232,401	244,672	477,073
Prior period adjustment	-	5,175	5,175
Fund balances, end of year	\$ 158,497	\$ 295,062	\$ 453,559

See accompanying notes to general purpose financial statements.

Village of Westphalia

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUND TYPES

Year Ended February 29, 2004

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ 150,000	\$ 154,667	\$ 4,667
Licenses and permits	700	1,400	700
Intergovernmental	80,000	76,495	(3,505)
Charges for services	66,500	62,475	(4,025)
Interest and rents	3,000	2,254	(746)
Other revenue	400	2,157	1,757
TOTAL REVENUES	300,600	299,448	(1,152)
EXPENDITURES			
General government	233,650	210,340	23,310
Public safety	25,300	11,439	13,861
Public works	200	177	23
Health and welfare	5,000	6,936	(1,936)
Community and economic development	8,300	4,731	3,569
Recreation and cultural	-	-	-0-
Other	57,200	7,349	49,851
Capital outlay	74,000	89,440	(15,440)
Debt service	-	26,440	(26,440)
TOTAL EXPENDITURES	403,650	356,852	46,798
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(103,050)	(57,404)	45,646
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-0-
Operating transfers out	(1,500)	(16,500)	(15,000)
TOTAL OTHER FINANCING SOURCES (USES)	(1,500)	(16,500)	(15,000)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND FINANCING OTHER (USES)	(104,550)	(73,904)	30,646
Fund balances, beginning of year	232,401	232,401	-0-
Prior period adjustment	-	-	-0-
Fund balances, end of year	\$ 127,851	\$ 158,497	\$ 30,646

See accompanying notes to general purpose financial statements.

Special Revenue Funds		
Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -0-
-	-	-0-
52,800	66,541	13,741
6,000	10,318	4,318
7,500	7,056	(444)
2,500	2,226	(274)
68,800	86,141	17,341
-	9,235	(9,235)
-	-	-0-
88,300	31,928	56,372
-	-	-0-
-	-	-0-
20,600	16,263	4,337
-	-	-0-
-	-	-0-
-	-	-0-
108,900	57,426	51,474
(40,100)	28,715	68,815
20,000	16,500	(3,500)
(20,000)	-	20,000
-0-	16,500	16,500
(40,100)	45,215	85,315
244,672	244,672	-0-
-	5,175	5,175
\$ 204,572	\$ 295,062	\$ 90,490

Village of Westphalia

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - PROPRIETARY FUND TYPE

Year Ended February 29, 2004

	<u>Enterprise</u>
OPERATING REVENUES	
Charges for services	\$ 95,568
Other	<u>2,116</u>
TOTAL OPERATING REVENUES	97,684
OPERATING EXPENSES	
Labor charges	31,003
Fringe benefits	2,371
Contractual services	1,068
Supplies	17,344
Utilities	5,057
Equipment rental	4,054
Other	16,395
Depreciation	<u>46,084</u>
TOTAL OPERATING EXPENSES	<u>123,376</u>
OPERATING (LOSS)	(25,692)
NON-OPERATING REVENUES (EXPENSES)	
Interest revenue	8,712
Interest expense	<u>(2,380)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>6,332</u>
NET (LOSS)	(19,360)
Add depreciation on contributed fixed assets	<u>19,657</u>
INCREASE IN RETAINED EARNINGS	297
Retained earnings, beginning of year	<u>893,030</u>
Retained earnings, end of year	<u><u>\$ 893,327</u></u>

See accompanying notes to general purpose financial statements.

Village of Westphalia

COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

Year Ended February 29, 2004

	<u>Enterprise</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating (loss)	\$ (25,692)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	46,084
Decrease in receivables	796
(Decrease) in accounts payable	(4,699)
(Decrease) in other accrued liabilities	(516)
Increase in due to other funds	<u>2,372</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	18,345
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest expense	(2,380)
Payments of borrowing	<u>(13,000)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(15,380)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	<u>8,712</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,677
Cash and cash equivalents, beginning of year	<u>274,209</u>
Cash and cash equivalents, end of year	<u><u>\$ 285,886</u></u>

See accompanying notes to general purpose financial statements.

Village of Westphalia

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

February 29, 2004

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Village of Westphalia is located in Clinton County, Michigan and has a population of approximately 880. The Village of Westphalia operates with a Village President/Council form of government and provides services to its residents in many areas including general government, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President and a maximum of six (6) trustees who are selected at large for overlapping four year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements present the financial activities of the Village of Westphalia. The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the general purpose financial statements of the Village of Westphalia contain all the funds and account groups controlled by the Village Council.

2. Basis of Presentation

The accounts of the Village are organized on the basis of funds and an account group, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Village resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two (2) fund types and one (1) account group as follows:

GOVERNMENTAL FUNDS

- a. General Fund - The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Special Revenue Funds (Major Street, Local Street, Equipment Replacement, Parks and Recreation) - The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

February 29, 2004

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

PROPRIETARY FUNDS

- a. Enterprise Funds (Sewer System, Water System) - The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

ACCOUNT GROUP

- a. General Fixed Assets Account Group - The General Fixed Assets Account Group is used to maintain control and cost information for all fixed assets of the Village other than those accounted for in the proprietary funds.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the Balance Sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Balance Sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues that are considered measurable, but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred except for interest on long-term debt which is recorded when due.

The proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred.

5. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown in the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

February 29, 2004

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. Budgets and Budgetary Accounting - continued

- a. During the month of March, the Village Budget Committee submits their proposed operating budgets for the fiscal year commencing the previous March 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. During the month of March, the budget is legally adopted with passage by Council vote.
- d. The budget is legally adopted at the activity level for the General Fund and at the fund level in the Special Revenue Funds.
- e. After the budget is adopted all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at February 29, 2004 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted or as amended by the Village Council during the year. Individual amendments were appropriately approved by the Village Council in accordance with required procedures.

6. Cash, Cash Equivalents, and Investments

Cash equivalents are temporary investments that consist of various money market checking accounts. The cash and cash equivalents are recorded at market value.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated at market value in accordance with GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. All certificates of deposit held by the Village at year-end are classified as investments.

7. Restricted Cash and Investments

A portion of the cash and cash equivalents of the Sewer System and Water System Funds are classified as restricted cash and investments because their use is limited. The Sewer System Fund's restrictions are for the amount of customer deposits held at February 29, 2004. The Water System Fund's restrictions are due to bond resolution requirements to maintain certain balances in separate accounts for debt service and general purpose reserves, and also for the amount of customer deposits held at February 29, 2004.

8. Property Tax

The Village of Westphalia bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Westphalia on July 1 and are payable without penalty through September 15. All real property taxes not paid to the Village by September 14 are turned over to the Clinton County Treasurer for collection. The Clinton County Treasurer remits payments to all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.



NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

February 29, 2004

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

8. Property Tax - continued

The Village is permitted to levy taxes up to 11.0781 mills (\$11 per \$1,000 of assessed valuation) for general governmental services. For the year ended February 29, 2004, the Village levied 8 mills for general governmental services. The total taxable value for the 2003 levy for property within the Village was \$19,202,515.

9. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as operating transfers.

The General Fund records charges for equipment rental and administrative costs to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

10. Compensated Absences

Accumulated vacation and sick pay amounts of the Department of Public Works (DPW) employees are vested (i.e., are payable at termination). As of February 29, 2004, DPW employees had no material accumulated unused vacation and sick amounts that needed to be recorded in a General Long-Term Debt Account Group.

Accumulated vacation and sick pay amounts for all other Village employees do not vest (i.e., are not payable at termination) and therefore have not been recorded in a General Long-Term Debt Account Group.

11. Fixed Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources".

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in a General Fixed Assets Account Group, rather than in the governmental funds. The general fixed assets are recorded as expenditures at the time of purchase in the governmental fund types.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Groups, not in the governmental funds.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components.

Fixed assets are recorded at cost, or if donated, at fair market value at the date of donation. Expenditures that materially extend the useful life of existing assets are capitalized. Public domain (infrastructure) general fixed assets, which include roads, bridges, curbs and gutters, sidewalks, and drains, are not capitalized.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

Village of Westphalia

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

February 29, 2004

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**11. Fixed Assets and Long-Term Liabilities - continued**

The estimated useful lives are:

Buildings	50 years
Equipment	15 years
Office equipment	10 years
Vehicles	8 years
Sewer lines	40 years
Pump stations/mains	40 years

**12. Comparative Data**

Comparative data for the prior year has not been presented in each of the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

**13. Total Columns on Combined Statements**

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or changes in financial position in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers' acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Village of Westphalia

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

February 29, 2004

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association.

As of February 29, 2004, the carrying amounts and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
<b>PRIMARY GOVERNMENT</b>		
Checking accounts	\$ 563,232	\$ 574,058
Savings accounts	28,508	28,812
Certificates of Deposit	<u>379,747</u>	<u>380,000</u>
Total	<u>\$ 971,487</u>	<u>\$ 982,870</u>

Deposits of the Village are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Village. As of February 29, 2004, the Village's accounts were insured by the FDIC for \$381,812 the amount of \$601,058 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

**NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - RESTRICTED**

The following summarizes the restricted cash and cash equivalents as of February 29, 2004:

	<u>Customer Deposits</u>	<u>Debt Retirement</u>	<u>Total</u>
Cash and cash equivalents			
Enterprise Funds	<u>\$ 120</u>	<u>\$ 28,508</u>	<u>\$ 28,628</u>

**NOTE D: INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at February 29, 2004, are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General		General	
Major Street	\$ 2,651	Water System	\$ 7,207
Local Street	999		
Sewer System	<u>3,842</u>	Special Revenue	
	7,492	Major Street	
		General	2,651
		Local Street	
		General	<u>999</u>
			3,650

Village of Westphalia

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

February 29, 2004

**NOTE D: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED**

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Enterprise		Enterprise	
Water System		Water System	
General	\$ 7,207	Sewer System	\$ 11,463
Sewer System		Sewer System	
Water System	<u>11,463</u>	General	<u>3,842</u>
	<u>18,670</u>		<u>15,305</u>
	<u>\$ 26,162</u>		<u>\$ 26,162</u>

**NOTE E: FIXED ASSETS**

A summary of changes in general fixed assets at February 29, 2004 follows:

	<u>Balance Mar. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Feb. 29, 2004</u>
Land and improvements	\$ 161,778	\$ 53,000	\$ -	\$ 214,778
Buildings and improvements	46,780	24,202	-	70,982
Equipment	79,655	38,625	-	118,280
Vehicles	<u>63,508</u>	<u>-</u>	<u>-</u>	<u>63,508</u>
	<u>\$ 351,721</u>	<u>\$ 115,827</u>	<u>\$ -0-</u>	<u>\$ 467,548</u>

A summary of Proprietary Fund Type fixed assets at February 29, 2004 follows:

	<u>Enterprise</u>
Sewer System	\$ 1,192,006
Water System	<u>622,107</u>
Total	1,814,113
Less: accumulated depreciation	<u>( 1,231,512 )</u>
Net fixed assets	<u>\$ 582,601</u>

Depreciation expense for the Sewer System and Water System for the year ended February 29, 2004 is \$29,800 and \$16,284, respectively.

Village of Westphalia

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

February 29, 2004

**NOTE F: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended February 29, 2004:

	Restated Balance <u>Mar. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Feb. 29, 2004</u>
General Long Term Debt Notes payable	\$ 24,127	\$ -	\$ 24,127	\$ -0-
Proprietary Fund Type Enterprise Fund Water System Fund 1993 Refunding Bonds	<u>51,000</u>	<u>-</u>	<u>13,000</u>	<u>38,000</u>
Total	<u>\$ 75,127</u>	<u>\$ -0-</u>	<u>\$ 37,127</u>	<u>\$ 38,000</u>

In 1993 the Village entered into an agreement with the Michigan Municipal Bond Authority to refund the 1986 Water Revenue Bonds and replace them with the 1993 Refunding Bonds. The refunding of the bonds did not change the Village's principal amounts due or the timing or duration of the payments but provided a better interest rate on the outstanding bonds. This resulted in a reduction in future interest payments by \$15,563.

Significant details regarding outstanding long-term debt (including current portion) are presented below:

Water Supply and Distribution System Revenue Refunding Bonds

\$149,000 Water Refunding Bonds dated December 20, 1993, due in annual installment of \$19,000 through November 1, 2005, with interest of 5.10 percent, payable semi-annually.

\$ 38,000

The annual requirements to pay the debt principal and interest outstanding for the bonds and contracts are as follows:

<u>Year Ending February 28,</u>	<u>Refunding Bonds</u>
2005	\$ 20,938
2006	<u>19,969</u>
	40,907
Less: interest	<u>( 2,907 )</u>
	<u>\$ 38,000</u>

Village of Westphalia

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

February 29, 2004

**NOTE G: RETIREMENT PLAN**

Plan Description

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Village Council. The plan requires no contribution from the employees.

Annual Pension Cost

For year ended February 29, 2004, the Village's annual pension cost of \$6,314 for the plan was more than the Village's actuarially estimated annual contribution of \$5,604. The annual estimated contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) a 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 4.2% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining unfunded actuarial liability is being amortized over thirty (30) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Actuarial value of assets	\$ 155,085	\$ 175,293	\$ 189,582
Actuarial accrued liability (AAL) (entry age)	188,573	205,555	232,360
Unfunded AAL	33,488	30,262	42,778
Funded ratio	82.2 %	85.3 %	81.6 %
Covered payroll	\$ 64,777	\$ 69,034	74,351
UAAL as a percentage of covered payroll	51.7 %	43.8 %	57.5 %

	Year Ended February 28/29,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost	\$ 6,867	\$ 6,414	\$ 6,314
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

Village of Westphalia

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

February 29, 2004

**NOTE H: SEGMENT INFORMATION**

The Village operates the Sewer System and Water System utilities providing services to the various Village residents. Segment information for the fiscal year ending February 29, 2004, is as follows:

	<u>Sewer System</u>	<u>Water System</u>	<u>Total</u>
Operating revenues	\$ 38,099	\$ 59,585	\$ 97,684
Operating expenses			
Depreciation	29,800	16,284	46,084
Other	22,195	55,097	77,292
Operating (loss)	( 13,896 )	( 11,796 )	( 25,692 )
Non-operating revenue			
Interest revenue	5,183	3,529	8,712
Non-operating expenses			
Interest expense	-	2,380	2,380
Net (loss)	( 8,713 )	( 10,647 )	( 19,360 )
Contributed capital	216,234	-	216,234
Net working capital	196,944	66,508	263,452
Total assets	669,211	495,081	1,164,292
Long-term liabilities			
Refunding bonds payable	-	38,000	38,000
Total equity	665,195	444,366	1,109,561

**NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the general purpose financial statements, the Village's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Village have been adopted at the account level for the General Fund and the fund level for the Special Revenue Funds.

During the year ended February 29, 2004, the Village incurred expenditures in the General Fund and one (1) Special Revenue Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Treasurer	\$ 3,650	\$ 3,879	\$ 229
Health and welfare			
Ambulance	5,000	6,936	1,936
Capital outlay	74,000	89,440	15,440
Debt service			
Principal	-	24,127	24,127
Interest	-	2,313	2,313
Operating transfers out	1,500	16,500	15,000
Special Revenue Funds			
Equipment replacement	-	9,235	9,235

## NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

February 29, 2004

**NOTE J: FUND EQUITY RESERVES AND DESIGNATIONS**

Reserved fund balance and retained earnings are used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance which the Village has set aside for specific purposes.

As of February 29, 2004, a portion of the Water System Fund retained earnings had been reserved in the amount of \$3,800 for debt service.

As of February 29, 2004, a portion of the General Fund fund balance had been designated in the amount of \$125,534 for future capital projects.

**NOTE K: PRIOR PERIOD ADJUSTMENT**

The following prior period adjustment was made during the period, which was the result of the correction of an accounting error. This adjustment was reported as a change to the beginning fund balance. The effect on operations and other affected balances for the current and prior period are as follows:

	February 28, 2004	February 29, 2003	Description
Major Street			
Cash	\$ -	\$ 5,175	Correct understated
Revenues over (under) expenditures	-	5,175	cash
Fund balance - beginning	5,175	-	

**NOTE L: RISK MANAGEMENT**

The Village is exposed to various risks of loss including accidental death, dismemberment, disability, employer's liability, errors and omissions, and workers' compensation for which the Village carries commercial insurance.

The Village also participates in a pool, the Michigan Township Participating Plan, with other municipalities for property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

**NOTE M: GASB STATEMENT NO. 34**

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement). Certain of the significant changes in the Statement include the following:

For the first time the financial statements will include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Village's activities, including reporting infrastructure assets (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

The general provisions of GASB Statement No. 34 must be implemented by the Village of Westphalia no later than the fiscal year ending February 28, 2005; the retroactive reporting of infrastructures, if any, is optional. If elected to be retroactively reported it must be implemented no later than the year ending February 28, 2009.



**SUPPLEMENTAL FINANCIAL INFORMATION**

Village of Westphalia

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL

Year Ended February 29, 2004

	Budget	2004 Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes			
General property taxes	\$ 150,000	\$ 154,667	\$ 4,667
Licenses and permits			
Village licenses and permits	700	1,400	700
Intergovernmental			
State shared revenue			
Sales tax	80,000	74,434	(5,566)
Liquor licenses	-	2,061	2,061
Total intergovernmental	80,000	76,495	(3,505)
Charges for services			
Administrative and labor charges	60,000	53,861	(6,139)
Other	6,500	8,614	2,114
Total charges for services	66,500	62,475	(4,025)
Interest	3,000	2,254	(746)
Other	400	2,157	1,757
TOTAL REVENUES	300,600	299,448	(1,152)
EXPENDITURES			
General government			
Legislative			
Salaries and wages	6,500	4,795	1,705
Fringe benefits	-	450	(450)
Printing and publishing	500	71	429
Miscellaneous	500	-	500
Total legislative	7,500	5,316	2,184
President			
Salaries and wages	11,300	7,005	4,295
Fringe benefits	300	657	(357)
Miscellaneous	200	-	200
Total president	11,800	7,662	4,138

Village of Westphalia

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - CONTINUED

Year Ended February 29, 2004

	Budget	2004 Actual	Variance Favorable (Unfavorable)
EXPENDITURES - CONTINUED			
General government - continued			
Clerk			
Salaries and wages	\$ 13,000	\$ 11,364	\$ 1,636
Fringe benefits	-	1,066	(1,066)
Travel and seminars	200	-	200
Supplies	2,000	256	1,744
Printing and publishing	300	-	300
Miscellaneous	500	161	339
Total clerk	16,000	12,847	3,153
Treasurer			
Salaries and wages	2,700	2,700	-0-
Fringe benefits	-	253	(253)
Travel and seminars	100	-	100
Supplies	500	185	315
Printing and publishing	150	-	150
Miscellaneous	200	741	(541)
Total treasurer	3,650	3,879	(229)
Assessor			
Salaries and wages	200	190	10
Fringe benefits	-	18	(18)
Miscellaneous	100	-	100
Total assessor	300	208	92
Elections			
Salaries and wages	800	-	800
Supplies	750	363	387
Printing and publishing	500	1,050	(550)
Total elections	2,050	1,413	637
Hall and grounds			
Salaries and wages	90,000	77,037	12,963
Fringe benefits	23,000	36,312	(13,312)
Supplies	15,000	21,567	(6,567)
Utilities	38,850	17,404	21,446
Insurance	20,000	20,946	(946)
Equipment and fuel	5,500	5,749	(249)
Total hall and grounds	192,350	179,015	13,335
Total general government	233,650	210,340	23,310

Village of Westphalia

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - CONTINUED

Year Ended February 29, 2004

	Budget	2004 Actual	Variance Favorable (Unfavorable)
EXPENDITURES - CONTINUED			
Public safety			
Police department			
Contractual services	\$ 13,000	\$ 11,439	\$ 1,561
Fire department			
Contractual services	12,300	-	12,300
Total public safety	25,300	11,439	13,861
Public works			
Refuse collection			
Contractual services	200	177	23
Health and welfare			
Ambulance			
Contractual services	5,000	6,936	(1,936)
Community and economic development			
Planning commission			
Salaries and wages	5,000	4,040	960
Fringe benefits	-	379	(379)
Supplies	200	-	200
Printing and publishing	2,500	60	2,440
Miscellaneous	100	-	100
Total planning commission	7,800	4,479	3,321
Zoning commission			
Per diem	500	230	270
Fringe benefits	-	22	(22)
Total zoning commission	500	252	248
Total community and economic development	8,300	4,731	3,569
Other			
Audit fees	8,500	5,025	3,475
Legal fees	5,000	396	4,604
Equipment	15,000	-	15,000
Miscellaneous	28,700	1,928	26,772
Total other	57,200	7,349	49,851
Capital outlay	74,000	89,440	(15,440)

Village of Westphalia

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - CONTINUED

Year Ended February 29, 2004

	Budget	2004 Actual	Variance Favorable (Unfavorable)
EXPENDITURES - CONTINUED			
Debt service			
Principal	\$ -	\$ 24,127	\$ (24,127)
Interest	-	2,313	(2,313)
Total debt service	-0-	26,440	(26,440)
TOTAL EXPENDITURES	403,650	356,852	46,798
EXCESS OF REVENUES (UNDER) EXPENDITURES	(103,050)	(57,404)	45,646
OTHER FINANCING USES			
Operating transfers out -			
Parks and Recreation Fund	(1,500)	(1,500)	-0-
Equipment Replacement Fund	-	(15,000)	(15,000)
TOTAL OTHER FINANCING USES	(1,500)	(16,500)	(15,000)
EXCESS OF REVENUES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(104,550)	(73,904)	30,646
Fund balance, beginning of year	232,401	232,401	-0-
Fund balance, end of year	\$ 127,851	\$ 158,497	\$ 30,646

Village of Westphalia

Special Revenue Funds

COMBINING BALANCE SHEET

February 29, 2004

	Major Street	Local Street	Equipment Replacement	Parks and Recreation	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 98,391	\$ 27,518	\$ 48,442	\$ 9,919	\$ 184,270
Investments	28,000	27,000	39,747	-	94,747
Accounts receivable	9,641	-	-	-	9,641
Due from other governmental units - State	8,287	3,630	-	-	11,917
<b>TOTAL ASSETS</b>	<b>\$144,319</b>	<b>\$ 58,148</b>	<b>\$ 88,189</b>	<b>\$ 9,919</b>	<b>\$ 300,575</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 1,503	\$ -	\$ 360	\$ -	\$ 1,863
Due to other funds	2,651	999	-	-	3,650
<b>TOTAL LIABILITIES</b>	<b>4,154</b>	<b>999</b>	<b>360</b>	<b>-0-</b>	<b>5,513</b>
<b>FUND BALANCES</b>					
Unreserved					
Undesignated	140,165	57,149	87,829	9,919	295,062
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$144,319</b>	<b>\$ 58,148</b>	<b>\$ 88,189</b>	<b>\$ 9,919</b>	<b>\$ 300,575</b>

Village of Westphalia

Special Revenue Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 29, 2004

	Major Street	Local Street	Equipment Replacement	Parks and Recreation	Total
REVENUES					
Intergovernmental	\$ 46,257	\$ 19,484	\$ -	\$ 800	\$ 66,541
Charges for services	3,593	-	-	6,725	10,318
Interest and rents	1,371	837	776	4,072	7,056
Other	226	-	-	2,000	2,226
TOTAL REVENUES	51,447	20,321	776	13,597	86,141
EXPENDITURES					
General government	-	-	9,235	-	9,235
Public works					
Highways and streets	28,033	3,895	-	-	31,928
Recreation and cultural					
Parks and recreation	-	-	-	16,263	16,263
TOTAL EXPENDITURES	28,033	3,895	9,235	16,263	57,426
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	23,414	16,426	(8,459)	(2,666)	28,715
OTHER FINANCING SOURCES					
Operating transfers in	-	-	15,000	1,500	16,500
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	23,414	16,426	6,541	(1,166)	45,215
Fund balances, beginning of year	111,576	40,723	81,288	11,085	244,672
Prior period adjustment	5,175	-	-	-	5,175
Fund balances, end of year	<u>\$ 140,165</u>	<u>\$ 57,149</u>	<u>\$ 87,829</u>	<u>\$ 9,919</u>	<u>\$ 295,062</u>

Village of Westphalia

Major Street

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL

Year Ended February 29, 2004

	Budget	2004 Actual	Variance Favorable (Unfavorable)
REVENUES			
Intergovernmental -State			
Gas and weight tax	\$ 35,000	\$ 46,257	\$ 11,257
Charges for services	-	3,593	3,593
Interest	2,500	1,371	(1,129)
Other	-	226	226
TOTAL REVENUES	37,500	51,447	13,947
EXPENDITURES			
Administrative			
Labor charges	1,800	1,500	300
Supplies	100	-	100
Miscellaneous	250	-	250
Total administrative	2,150	1,500	650
Construction			
Contracted services	-	9,217	(9,217)
Street maintenance			
Labor charges	4,500	8,513	(4,013)
Fringe benefits	-	651	(651)
Supplies	1,200	1,359	(159)
Contracted services	20,000	1,345	18,655
Equipment rental	3,500	-	3,500
Miscellaneous	11,500	-	11,500
Total street maintenance	40,700	11,868	28,832
Traffic service maintenance			
Supplies	500	168	332
Contracted service	5,300	5,280	20
Miscellaneous	200	-	200
Total traffic service maintenance	6,000	5,448	552
TOTAL EXPENDITURES	48,850	28,033	20,817
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(11,350)	23,414	34,764
OTHER FINANCING USES			
Operating transfers out	(20,000)	-	20,000
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(31,350)	23,414	54,764
Fund balance, beginning of year	111,576	111,576	-0-
Prior period adjustment	-	5,175	5,175
Fund balance, end of year	\$ 80,226	\$ 140,165	\$ 59,939



Village of Westphalia

Local Street

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL

Year Ended February 29, 2004

	Budget	2004 Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Intergovernmental - Federal/State			
Gas and weight tax	\$ 17,000	\$ 19,484	\$ 2,484
Interest	1,200	837	(363)
Miscellaneous	2,500	-	(2,500)
<b>TOTAL REVENUES</b>	<b>20,700</b>	<b>20,321</b>	<b>(379)</b>
<b>EXPENDITURES</b>			
Administrative			
Labor charges	600	600	-0-
Supplies	150	-	150
<b>Total administrative</b>	<b>750</b>	<b>600</b>	<b>150</b>
Construction			
Contracted services	2,500	-	2,500
Street maintenance			
Labor charges	5,000	2,338	2,662
Fringe benefits	-	179	(179)
Supplies	700	186	514
Contracted services	28,000	-	28,000
Equipment rental	2,500	592	1,908
<b>Total street maintenance</b>	<b>36,200</b>	<b>3,295</b>	<b>32,905</b>
<b>TOTAL EXPENDITURES</b>	<b>39,450</b>	<b>3,895</b>	<b>35,555</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(18,750)</b>	<b>16,426</b>	<b>35,176</b>
<b>OTHER FINANCING SOURCES</b>			
Operating transfers in	20,000	-	(20,000)
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES</b>	<b>1,250</b>	<b>16,426</b>	<b>15,176</b>
Fund balance, beginning of year	40,723	40,723	-0-
Fund balance, end of year	<u>\$ 41,973</u>	<u>\$ 57,149</u>	<u>\$ 15,176</u>

Village of Westphalia

Equipment Replacement

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL

Year Ended February 29, 2004

	Budget	2004 Actual	Variance Favorable (Unfavorable)
REVENUES			
Interest	\$ -	\$ 776	\$ 776
EXPENDITURES			
Supplies	-	9,235	(9,235)
EXCESS OF REVENUES (UNDER) EXPENDITURES	-0-	(8,459)	(8,459)
OTHER FINANCING SOURCES			
Operating transfers in	-	15,000	15,000
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	-0-	6,541	6,541
Fund balance, beginning of year	81,288	81,288	-0-
Fund balance, end of year	\$ 81,288	\$ 87,829	\$ 6,541

Village of Westphalia

Parks and Recreation

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL

Year Ended February 29, 2004

	Budget	2004 Actual	Variance Favorable (Unfavorable)
REVENUES			
Intergovernmental			
Local	\$ 800	\$ 800	\$ -0-
Charges for services			
Fees	6,000	6,725	725
Interest and rents			
Building rentals	3,700	3,959	259
Interest	100	113	13
Other	-	2,000	2,000
TOTAL REVENUES	10,600	13,597	2,997
EXPENDITURES			
Recreation and cultural			
Salaries and wages	200	1,100	(900)
Supplies	1,500	2,032	(532)
Utilities	1,000	1,566	(566)
Repairs and maintenance	3,600	9,194	(5,594)
Miscellaneous	4,000	2,371	1,629
Capital outlay	10,300	-	10,300
TOTAL EXPENDITURES	20,600	16,263	4,337
EXCESS OF REVENUES (UNDER) EXPENDITURES	(10,000)	(2,666)	7,334
OTHER FINANCING SOURCES			
Operating transfers in	-	1,500	1,500
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES	(10,000)	(1,166)	8,834
Fund balance, beginning of year	11,085	11,085	-0-
Fund balance, end of year	\$ 1,085	\$ 9,919	\$ 8,834

Village of Westphalia

Enterprise Funds

COMBINING BALANCE SHEET

February 29, 2004

	Sewer System	Water System	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 178,160	\$ 79,098	\$ 257,258
Accounts receivable	11,259	11,876	23,135
Due from other funds	11,463	7,207	18,670
Total current assets	200,882	98,181	299,063
Other assets			
Cash - restricted	78	28,550	28,628
Investments	165,000	90,000	255,000
Total other assets	165,078	118,550	283,628
Fixed assets			
Property, plant, and equipment	1,192,006	622,107	1,814,113
Accumulated depreciation	(888,755)	(343,757)	(1,232,512)
Net fixed assets	303,251	278,350	581,601
TOTAL ASSETS	\$ 669,211	\$ 495,081	\$ 1,164,292

Village of Westphalia

Enterprise Funds

COMBINING BALANCE SHEET - CONTINUED

February 29, 2004

	Sewer System	Water System	Total
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 96	\$ 564	\$ 660
Due to other funds	3,842	11,463	15,305
Accrued interest payable	-	646	646
Current portion of long-term debt	-	19,000	19,000
Total current liabilities	3,938	31,673	35,611
Non-current liabilities			
Payable from restricted cash - customer deposits payable	78	42	120
Revenue bonds payable	-	19,000	19,000
Total non-current liabilities	78	19,042	19,120
TOTAL LIABILITIES	4,016	50,715	54,731
FUND EQUITY			
Contribution in aid of construction			
Federal Government	216,234	-	216,234
Retained earnings			
Reserved for debt service	-	3,800	3,800
Unreserved	448,961	440,566	889,527
TOTAL FUND EQUITY	665,195	444,366	1,109,561
TOTAL LIABILITIES AND FUND EQUITY	\$ 669,211	\$ 495,081	\$ 1,164,292

Village of Westphalia

Enterprise Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN RETAINED EARNINGS

Year Ended February 29, 2004

	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services			
Usage fees	\$ 37,979	\$ 56,589	\$ 94,568
Tap in fees	-	1,000	1,000
Other	120	1,996	2,116
TOTAL OPERATING REVENUES	38,099	59,585	97,684
OPERATING EXPENSES			
Labor charges	14,234	16,769	31,003
Fringe benefits	1,089	1,282	2,371
Contractual services	-	1,068	1,068
Supplies	4,126	13,218	17,344
Utilities	1,659	3,398	5,057
Equipment rental	1,070	2,984	4,054
Other	17	16,378	16,395
Depreciation	29,800	16,284	46,084
TOTAL OPERATING EXPENSES	51,995	71,381	123,376
OPERATING (LOSS)	(13,896)	(11,796)	(25,692)
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	5,183	3,529	8,712
Interest expense	-	(2,380)	(2,380)
TOTAL NON-OPERATING REVENUES (EXPENSES)	5,183	1,149	6,332
NET (LOSS)	(8,713)	(10,647)	(19,360)
Add depreciation on contributed fixed assets	19,657	-	19,657
INCREASE (DECREASE) IN RETAINED EARNINGS	10,944	(10,647)	297
Retained earnings, beginning of year	438,017	455,013	893,030
Retained earnings, end of year	\$ 448,961	\$ 444,366	\$ 893,327

Village of Westphalia

Enterprise Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended February 29, 2004

	Sewer System	Water System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating (loss)	\$ (13,896)	\$ (11,796)	\$ (25,692)
Adjustments to reconcile operating loss to net cash provided by operating activities			
Depreciation	29,800	16,284	46,084
Decrease in accounts receivable	-	796	796
(Decrease) in accounts payable	(38)	(4,661)	(4,699)
(Decrease) in other accrued liabilities	(89)	(427)	(516)
Increase in due to other funds	1,089	1,283	2,372
NET CASH PROVIDED BY OPERATING ACTIVITIES	16,866	1,479	18,345
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest expense	-	(2,380)	(2,380)
Payments of borrowing	-	(13,000)	(13,000)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	-0-	(15,380)	(15,380)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	5,183	3,529	8,712
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	22,049	(10,372)	11,677
Cash and cash equivalents, beginning of year	156,189	118,020	274,209
Cash and cash equivalents, end of year	\$ 178,238	\$ 107,648	\$ 285,886

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



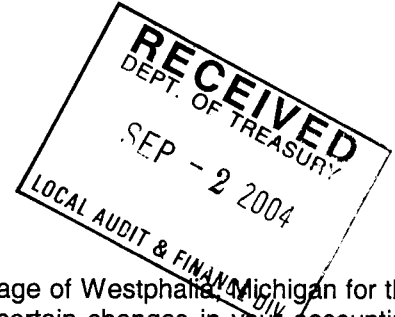
**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

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Karen A. Roka, CPA  
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William I. Tucker IV, CPA  
Kurt M. Lemmen, CPA

**MANAGEMENT LETTER**

To the Honorable President and  
Members of the Village Council  
Village of Westphalia  
Westphalia, Michigan



Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Village of Westphalia, Michigan for the year ended February 29, 2004. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The Village should record activity from the Park and Recreation in the General Ledger.

During our audit we noted that although policies have been put in place to record Parks and Recreation activities in the Village's General Ledger there has been no Parks and Recreation activity recorded in the General Ledger for the fiscal year. Also, bank reconciliations have not been performed for the Park and Recreation bank account.

We suggest that monthly activity be recorded in the Village's General Ledger and be reconciled to the bank statement.

2. The Village should escheat unclaimed property to the State of Michigan.

During our audit, it was noted that the Village had outstanding checks listed on the General Fund Tax bank reconciliation that were more than a year old. The Michigan Public Act 29 of 1995 provides that the Department report and escheat unclaimed property to the State of Michigan.

We suggest the Village attempt to contact the payees in an effort to clear old outstanding checks. In the event that the rightful property owners cannot be located, we suggest the Village review their unclaimed property and escheat funds to the State of Michigan as necessary.

3. Supporting documentation for various financial activities of the Village should be retained in accordance with a records management policy.

During the course of our audit, we noted several instances where documentation could not be located by the current management. Maintaining complete and accurate documentation of the Village's financial activities is a key function of the Village's management. Specific instances where supporting documentation could not be located include:

- a. Judgmentally selected invoices requested during our disbursement and expenditure line item testing.
- b. Remittance stubs requested during our receipts and revenue line item testing.



We suggest the Village locate these items and place them on file appropriately. We also suggest the Village adopt a records management and document retention policy and periodically monitor compliance with that policy.

4. The Village should enter budgets into the accounting software.

During the course of our audit, we noted that the Village does not enter budgets for the various funds into the accounting software. The software is capable of generating several useful reports when budgets are entered. Management may find these reports to be valuable decision-making tools.

We suggest that budgets for the General and Special Revenue funds be entered into the Village's accounting software so that management may take full advantage of the available functionality.

5. The Village should evaluate procedures used to record revenue in the Water and Sewer funds.

During the course of our audit, we noted significant fluctuations in the amounts recorded as charges for service in the Water and Sewer funds. It is our understanding that revenues are receipted into the Water fund and then the applicable amounts are transferred to the Sewer fund as revenue. While these fluctuations are not material to the financial statements taken as a whole, classifying these revenues correctly in the respective Enterprise funds will provide a clearer picture of operations to management.

We suggest that management evaluate procedures for recording revenues in these funds. Revenues should be recorded in each fund directly from the quarterly billing reports produced by the utility billing software.

6. Budgets should be monitored and amended when necessary.

As noted in the financial statements, some of the activities of the Village exceeded the amounts appropriated. The variances noted were in the General Fund and in the Equipment Replacement Fund. The Village did not adopt a budget for the Equipment Replacement Fund.

The Michigan Public Act 621 of 1978, as amended, provides that the Village adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We suggest the Village monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the general purpose financial statements, and this report does not affect our report on the general purpose financial statements, dated June 2, 2004.

This report is intended solely for the information of management and the President and Members of the Village Council of the Village of Westphalia, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

June 2, 2004